Washington

August 31, 1936

A REVIEW OF BUSINESS CONDITIONS
Confidential

Agricultural-Industrial Relations Section
A.A.A.

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July Farm Cash Income Highest Since 1929.

Another sharp increase in farmers' cash receipts occurred in July - the total of $780,000,000 (after adjustment for seasonal and including benefits) was the largest for that month since 1929. This is an increase of $246,000,000 over income received in the same month last year or 46 percent and widens the gain from the low of the depression reached in February 1933 to $465,000,000 or 148 percent. For the seven months of 1936, farm cash income (after seasonal adjustment) has run nearly 16 percent ahead of the corresponding 1935 period.

The highest farm price for wheat since 1929 coming in the season of usual heavy marketings from the winter crop was a principal factor in the increased income. Likewise, price strength in vegetables, dairy and poultry products and cotton aided materially. Cash receipts from livestock were moderately higher in spite of the growing pressure on prices because of stock liquidation. A recent survey of farmers indicates that the drought continues unbroken in most of the stricken areas and farmers are being compelled to feed supplies of hay and grain intended for use next winter. This unfavorable situation unless relieved soon is likely to aggravate conditions in later months particularly in areas where farmers depend on dairy and livestock income.

Non-Farm Income Increasing over Last Year

National income excluding farm income registered a further gain over last year in July showing an increase of 14 percent as against a 13 percent gain in June. The July index of 82.2 percent of the 1924-29 average shows the largest year to year gain since the early months of 1934 and provides a per capita purchasing power within 8 percent of the 1924-29 average. Since the beginning of the year, purchasing power per person not on farms has averaged 8 percent higher than in the same period last year with the latest two months averaging over 10 percent greater.

Contributing to the strength in non-farm income has been the steady advance in labor income (see chart) which is estimated in July at $3,464,000,000 (seasonally corrected) or more than 15 percent above a year earlier and nearly 82 percent higher than at the depression low in April, 1933. This expansion is attributed chiefly to the continuing high rate of industrial activity which in late months reflects the added stimulus of bonus spending. In connection with this improving situation in labor income, a recent estimate of the manufacturing payroll per employed worker and its purchasing power in terms of 1929 dollars, as computed from Bureau

of Labor Statistics indexes, proves interesting. The monthly data on payroll per worker are compiled from seasonally corrected indexes and raised to an annual rate. The figures show that, at the present time, the workers actually employed can now buy 7 percent more of the necessities of life than they did in 1929 because prices of these things on the average are lower than in 1929. This is particularly true in the case of foods which is illustrated in the last column below. In terms of foods alone the employed worker can buy 10 percent more than in 1929.

Average Annual Earnings per Worker in Manufacturing Industries.

	Average Annual Earnings per Worker	Cost of Living B.L.S. 1929-100	Purchasing Power of Earnings per Worker 1929 dollars	Food Costs B.L.S. 1929-100	Purchasing Power of Earnings in Terms of Food 1929 dollars
1929	$1314	100.0%	$1314	100.0%	$1314
1930	1224	97.5	1255	95.2	1286
1931	1101	89.1	1236	78.4	1404
1932	907	80.1	1132	65.2	1391
1933	888	76.2	1165	63.4	1401
1934	992	78.9	1257	70.5	1407
1935	1079	81.0	1332	76.8	1405
March, 1933.	774	73.6	1052	57.4	1348
July, 1935	1059	80.8	1311	76.6	1383
July, 1936.	1158	82.7	1400	80.3	1442

While purchasing power of employed workers dropped after 1929 in terms of all living costs, it actually advanced in terms of food in 1931, when farm prices started tumbling, remained higher than the 1929 level throughout the period and reached new high levels in 1936. Part of this showing may be the result of a shift in percentage of the various wage groups making up the total as the supply of skilled artisans became more plentiful in proportion to the demand for workers. Whatever the reason, the average earnings of employed factory workers have kept pace with the rising trend of food prices. In spite of the prospective further advance in prices of foods because of the drought, it is significant that more men are engaged in manufacturing than at any time in the past five years and are in a better position to pay the improved prices than at any time since 1928.

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Ratio of Farm to Labor Income

Because of the greater dependence of farm income on the national income in recent years, the present upward tendency in consumer purchasing power is very significant. The nature of the interdependence between farm income and labor income is shown in the following table, covering the results of the first seven months of 1929, and 1933--1936.

January-July	Farm Cash Income	All Labor Income	Percent
	(Million dollars)		
1929	$5,377	$29,814	18.0
1933	2,553	16,617	15.4
1934	3,147	19,954	15.8
1935	3,426	21,062	16.3
1936	4,024	23,492	17.1

If the present relationship holds through the first half of 1937, prospects of a continued upward trend in labor income foreshadow additional gains in farm income over the period as well.

Industrial Production

Industrial production rose to 108 percent of 1923-25 average in July (Federal Reserve Board seasonally adjusted index) or a gain of 5 points over the June figure. This is the highest level of production reached since November, 1929 and shows an increase of more than 25 percent from a year ago and of 83 percent from the low in March, 1933. United States total population is estimated to have increased 5.4 percent from mid-1929 to July 1, 1936 so that on a per capita basis current production still is at a rate something over 13 percent below the 1929 average.

Indications from various weekly reports suggest that the July rate will probably be maintained during August. Most indexes reached a high early in August, and then witnessed some recession. The New York Times index, however, turned about and reached a new recovery peak in the week of August 22. It is possible that some minor recession might develop during the next month or more while awaiting more tangible evidence of the drought effects. So long as purchasing power of consumers continues to rise (and this seems probable for the next several months despite the prospective rise in living costs because of the drought) it does not appear

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January-July	Farm Cash Income	All Labor Income	Percent
	(Million dollars)		
1929	$5,377	$29,404	18.3
1933	2,528	16,417	15.4
1934	3,147	18,954	16.6
1935	3,438	21,002	16.4
1936	4,024	23,462	17.2

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Industrial Production

Industrial production rose to 108 percent of 1923-25 average in July (Federal Reserve Board seasonally adjusted index) or a gain of 3 points over the June figure. This is the highest level of production reached since September, 1929 and shows an increase of more than 25 percent from a year ago and of 85 percent from the low in March, 1933. United States total population is estimated to have increased 5.4 percent from mid-1929 to July 1, 1936 so that on a per capita basis current production still is at a rate something over 13 percent below the 1929 average.

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likely that a major recession in industrial production will occur. Rather, further expansion in the heavy goods lines in 1937 which would carry the total index to new high levels may be expected.

Drought Effect on the Cost of Living

A preliminary survey of the possible effect of the 1936 drought on the cost of living reveals a marked similarity to results of the drought in 1934. The Bureau of Agricultural Economics has estimated, on the basis of the present outlook, that food supplies in general will be about 3 percent below the 1935-36 season, about 1 percent below 1934-35 and perhaps 5 percent under the 1925-29 average. There are prospective shorter supplies in certain foods such as vegetables (particularly potatoes) fruits and dairy products which will warrant higher retail prices this fall and, after the turn of the year, in meats which will result in a general food price advance.

Compared with the first half of 1934, retail food prices rose 4 percent in the second half and 10.8 percent in the first half of 1935. In the last half of 1936, it seems probable that food prices will rise about 3 to 5 percent over the first six months average and reach a level perhaps 10 percent higher in the first half of 1937. These estimates, of course, will be changed somewhat by developments from here on in the drought area and the import situation. Inasmuch as food constitutes about one-third of total living costs, and if allowance is made for continuation of present trends in rents, clothing etc., an advance in total living costs of about 1 to 1½ percent in the last six months is all that is expected. Already part of this rise has been effected so that no sharp advance is expected from now to the year end. Possibly somewhat higher living costs will be in evidence next spring, however, as meat and vegetable prices go higher. Nevertheless, the advance may not be more than 4 percent above first half 1936 levels; this was about the amount of gain witnessed in the spring of 1935 over the 1st half of 1934. At least as great an increase is expected in consumer income from current levels, and purchasing power of consumers in terms of goods and services should not decline.

Bonus Spending and Retail Trade

While the effect of bonus spending cannot be measured in actual amount, current trade volumes reflect the added stimulus to purchases of this sudden flow of cash over and above regular incomes. Comparisons of various retail sales index in recent months with the same months of 1935 follow:

	February	March	April	May	June	July
Department store sales	107	107	111	116	110	114
Variety store sales	97	101	106	118	116	119
Chain drug store sales	106	99	105	106	105	106
Automobile retail sales	103	107	119	133	139	128
Rural retail sales	103	109	109	122	113	118

Additional evidence of increasing consumer purchasing power is found in a recent New York Federal Reserve report on retail trade in July showing in that month purchases of such luxury goods as furs, sporting goods, home furnishings, musical instruments and luggage ran 50 to 60 percent greater than in July 1935.

Just how long the bonus spending will last is conjectural — as indicated by the volume of money in circulation, it is probable that a substantial sum remains unspent. Nevertheless, during the last few months there has been a marked improvement in production of the heavy industrial lines (see attached chart on manufactures of agricultural and non-agricultural products) the stimulus for which at least partly came from bonus spending.

Employment in Durable Lines Increasing

The results of this expansion in industrial production has been to add about 225,000 workers in "durable" lines since January 1; total manufacturing employment has increased about 430,000 since that time. While the present number of employed in factories is still about 10 percent under peak September, 1929 levels, it is noteworthy that since the low in March, 1933, over 1,800,000 men (or 68 percent) have been reemployed in durable manufacturing lines and that another 800,000 have been added in non-durable (mainly agricultural product using) lines. The former group still is 22 percent under September 1929 and the latter about 15 percent below (see chart.).

Residential Building

Included with the many other favorable indications at this time is the volume of building under way. Reflection of the many reports of increased industrial construction in automobile, steel and other lines, and higher volumes of public construction and residential building, is mirrored in the Dodge estimate of total contracts awarded in July amounting to $258,000,000. This is the highest July total since 1930 and represents a gain of more than 450 percent since the low point. (The July total still is only about 45 percent of the record July, 1928 figure.)

Particularly significant is the steady up-trend in home-building. The accompanying chart shows that the volume (seasonally adjusted contract value corrected for costs) is now the highest since 1931. The ratio of rents to costs continues to rise and, with money plentiful and cheap, and consumer purchasing power increasing, this advance in residential building may be extended through 1937.

That this will mean in reemploying many still idle and in giving further impetus to recovery can be gathered from some of the lesser known data on production. For instance, in the building material field, new

orders of southern pine lumber in the first half of 1936 were the highest since the corresponding period in 1929; production of roofing materials equaled 1929; sales of paints and varnishes were within 5 percent of the relatively high figure of 1929; orders for porcelain plumbing fixtures exceeded any like period since 1931; production of cement was the largest since 1931. In the house furnishings field, vacuum cleaner shipments in the period January to June, 1936 were the heaviest since the like period in 1929; household electric refrigerator sales in the period exceeded all previous records; orders for air-conditioning equipment were the highest on record; operations in furniture plants were 50 to 100 percent greater than for any corresponding period since 1932, when records first became available. These figures attest to the widespread effect building and general recovery have had and will exert to greater degree in future months.

BUSINESS INDICATORS

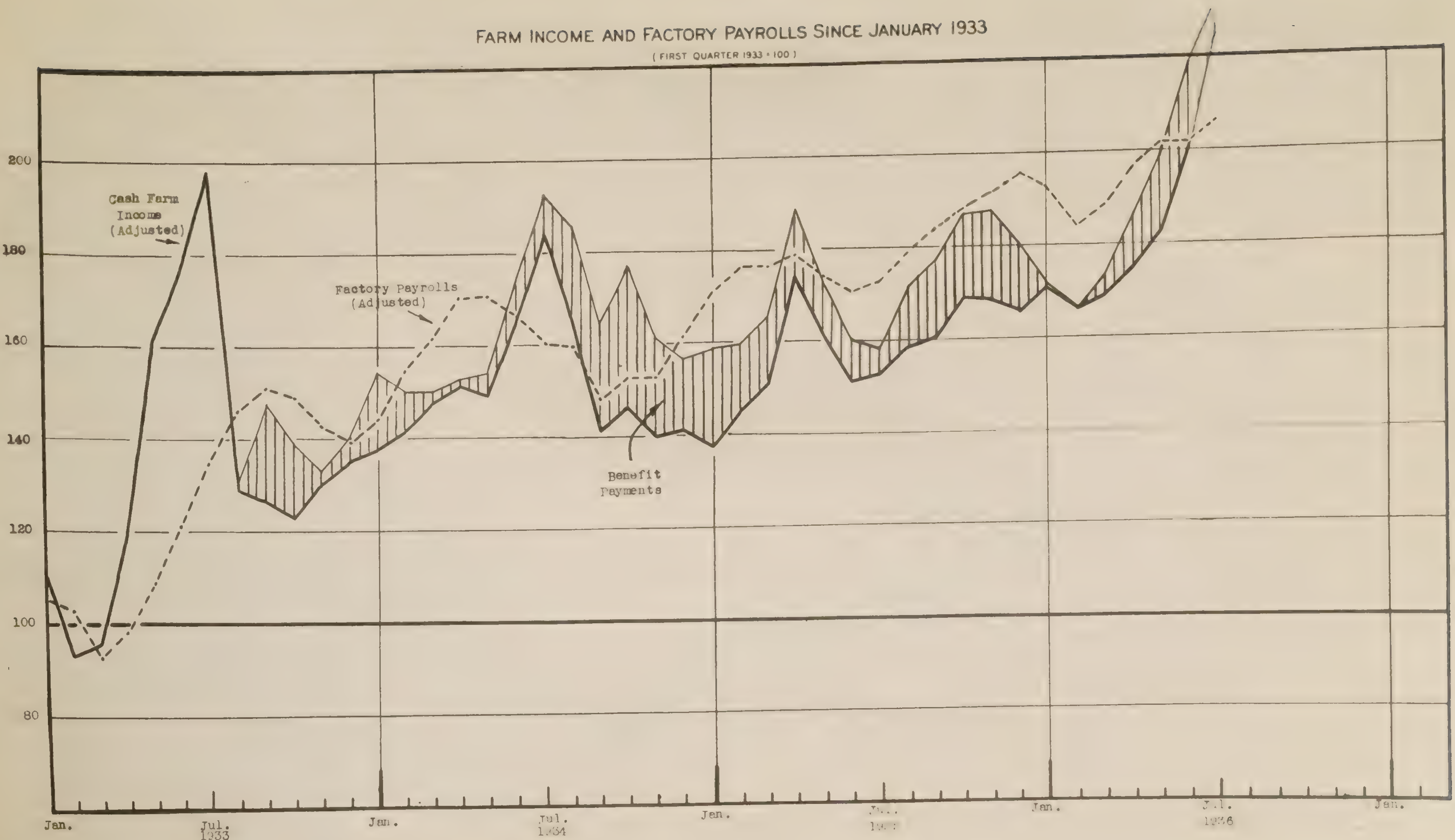
	Key	July 1936 (P)	June 1936 (r)	July 1935	July 1933	July 1929
Farm Income (with benefits) (1)	a	$ 730	$ 736	$ 534	$ 369	$ 949
Urban Income (with relief) (1)	a	$4,556	$4,628	$4,013	$3,414	$6,003
Industrial Activity F. R. B. (1)	b	108	103	86	100	124
Department Store Sales (1)	c	82	79	72	63	98
Rural Retail Sales (1)	c	92	90	78	57	101
Motor Vehicle Output (Units)(U.S.&Canada)	d	451	471	350	236	518
New Passenger Car Registrations (Units)	d	369(3)	393(4)	280(3)	174(3)	386(3)
Dollar Sales, New Passenger Autos (1)	c	72	76	56	36	106
Steel Ingot Production (tons)	d	3,923	3,985	2,283	3,168	4,351
Building Contracts (Dodge)	a	$ 295	$ 233	$ 159	$ 83	$ 652
Railway Carloadings(2)	d	2,526	2,737	2,229	3,109	4,160
Electric Power Production (K.W.Hr.)(2)	a	2,044	1,993	1,763	1,632	1,596
Wholesale Prices, All Commodities	f	117.6	115.7	115.9	100.6	140.9
Wholesale Prices, Farm	f	114.1	109.6	108.1	84.8	150.9
Wholesale Prices, Food	f	126.2	123.8	127.2	101.6	159.5
Wholesale Prices, Non-Agri.	f	113.3	117.0	117.6	104.2	1[illegible].6
Prices Paid by Farmers	f	126(5)	125(6)	125(5)	112(5)	164(5)
Prices Received by Farmers	f	124(5)	115(6)	106(5)	79(5)	152(5)
Urban Cost of Living	g	145.6	143.4	140.2	133.6	174.1
U.S.Unemployment, Trade Unions, (A.F.of L.)	c	145(5)	150(6)	224(5)	289(5)	82(5)
U.S.Employment, Mfg. Industries (B.L.S.)	c	82.8	82.1	75.9	68.2	101.2
U.S.Exports	a	$ 178	$ 185	$ 178	$ 144	$ 403
U.S.Imports	a	$ 197	$ 192	$ 178	$ 143	$ 353

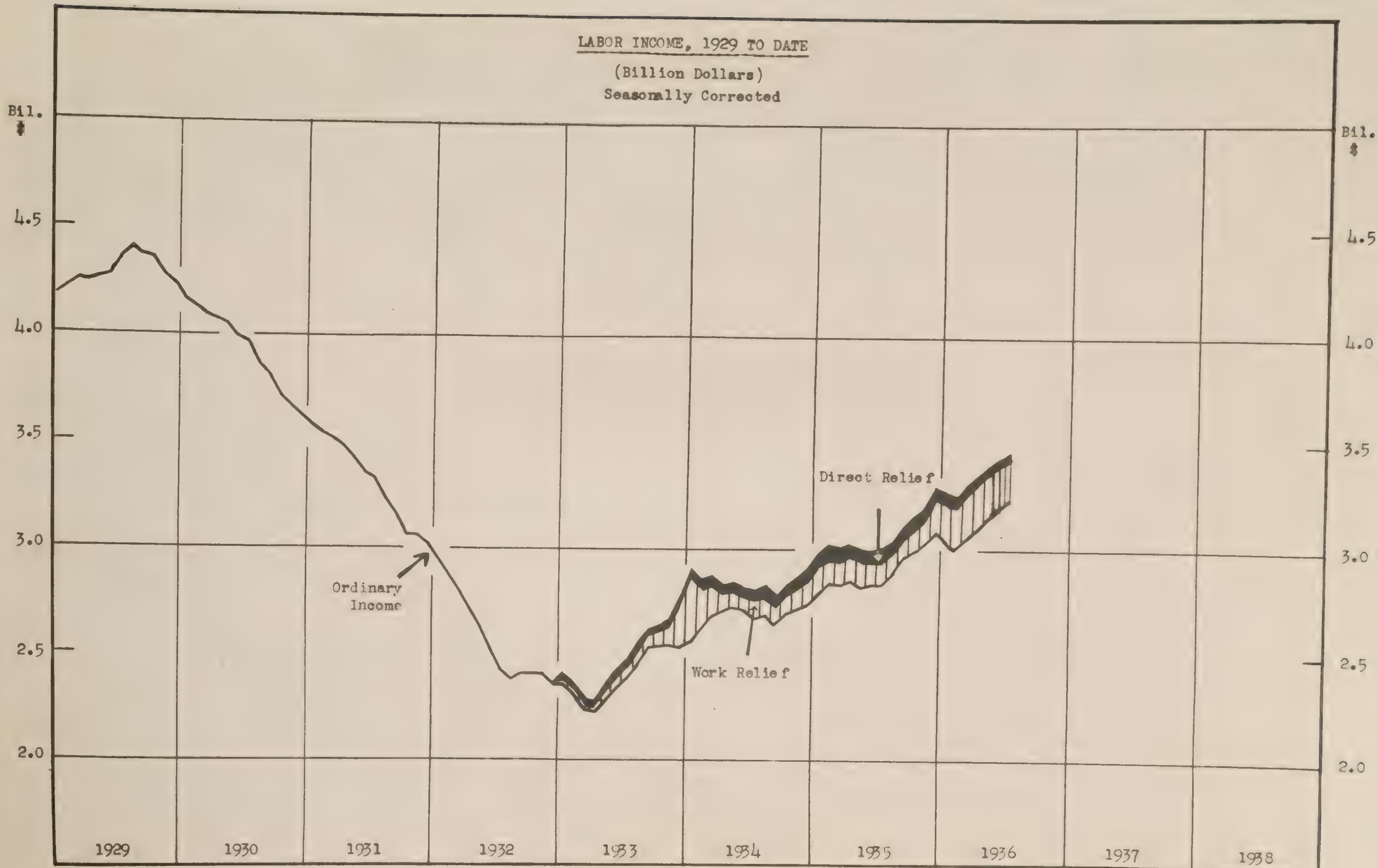
P-Preliminary
(r) Revised
(1) Adjusted for seasonal variation
(2) Four weeks' average
(3) June
(4) May
(5) August
(6) July

Key
a- in millions
b- 1923-5=100
c- 1929=100
d- in thousands
f- 1910-14=100
g- 1913=100

FARM INCOME AND FACTORY PAYROLLS SINCE JANUARY 1933

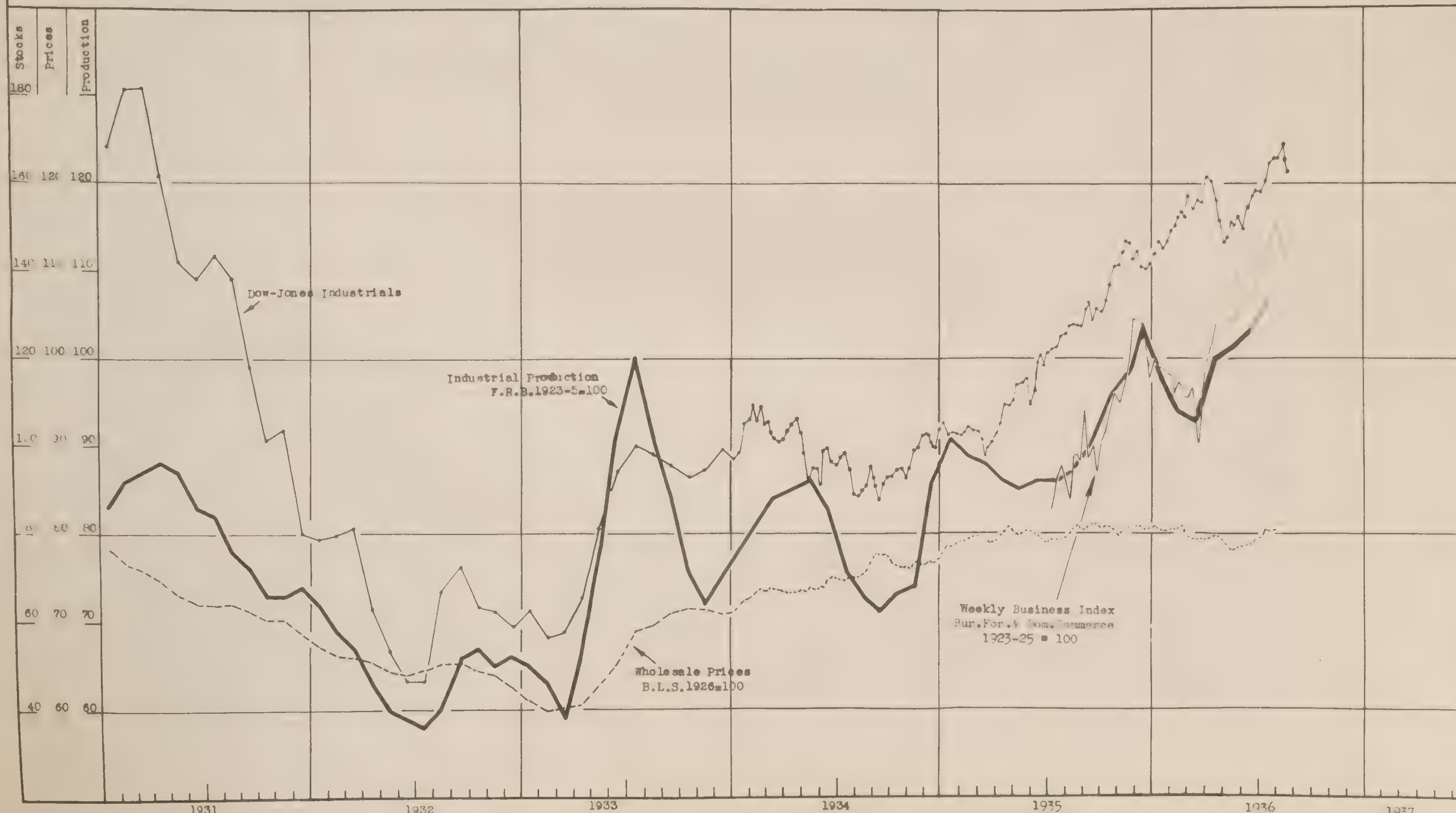
(FIRST QUARTER 1933 = 100)




LABOR INCOME, 1929 TO DATE
(Billion Dollars)
Seasonally Corrected
Bil. $
4.5
4.0
3.5
3.0
2.5
2.0
Ordinary Income
Work Relief
Direct Relief
1929
1930
1931
1932
1933
1934
1935
1936
1937
1938

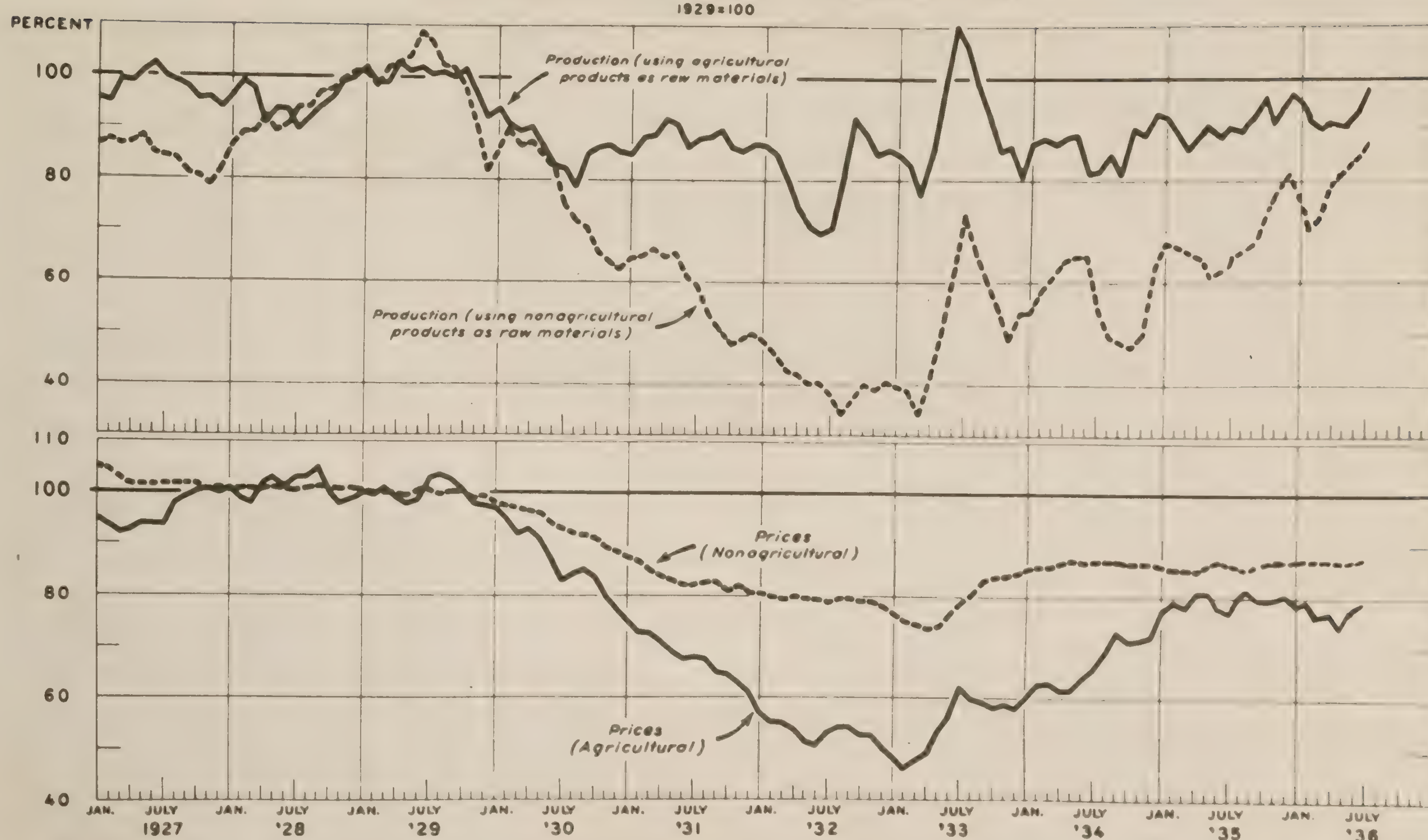
PRODUCTION AND PRICES

(Industrial Production, Stock and Commodity Prices)



Manufacturing Output and Wholesale Prices

1929=100



U. S. DEPARTMENT OF AGRICULTURE

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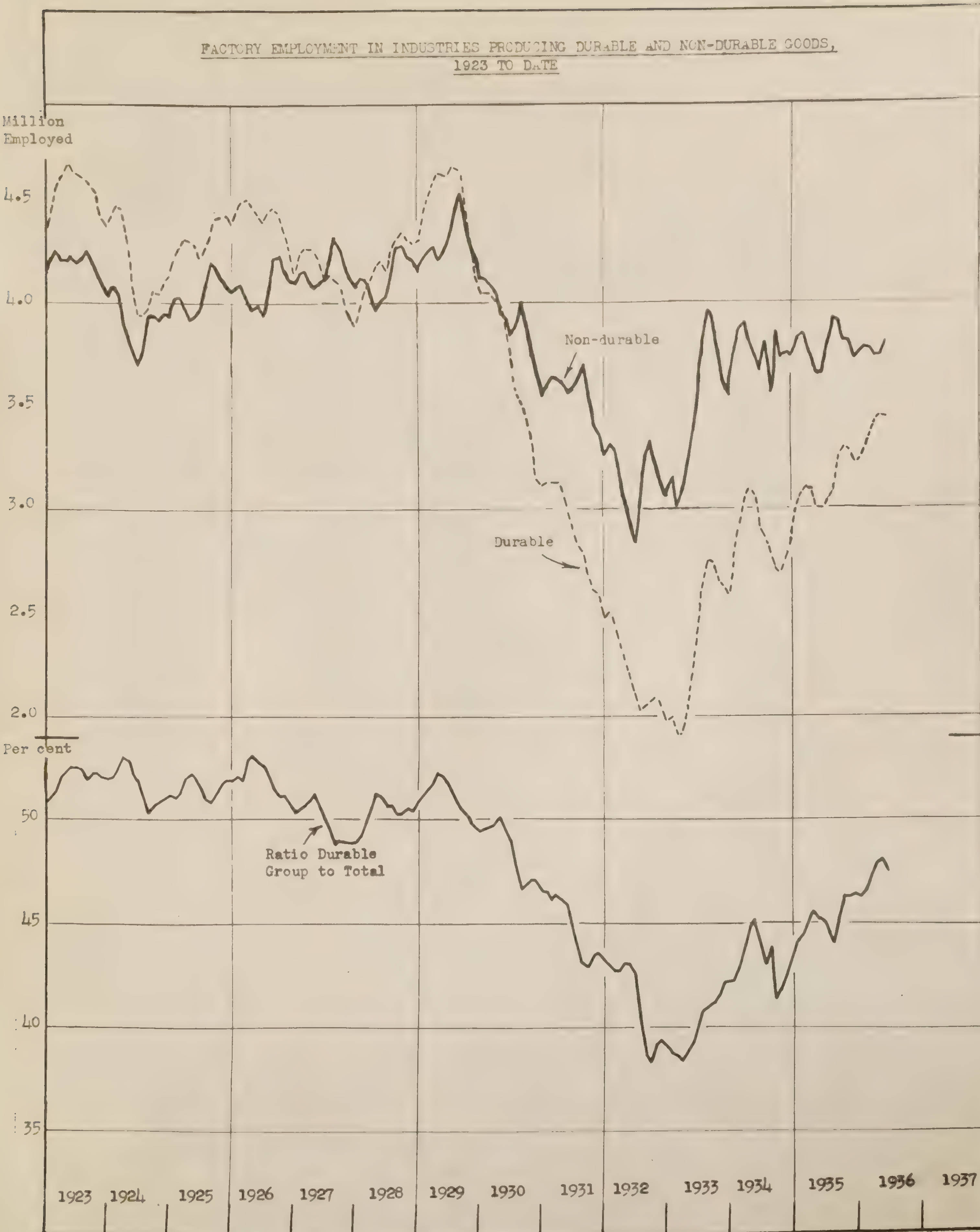
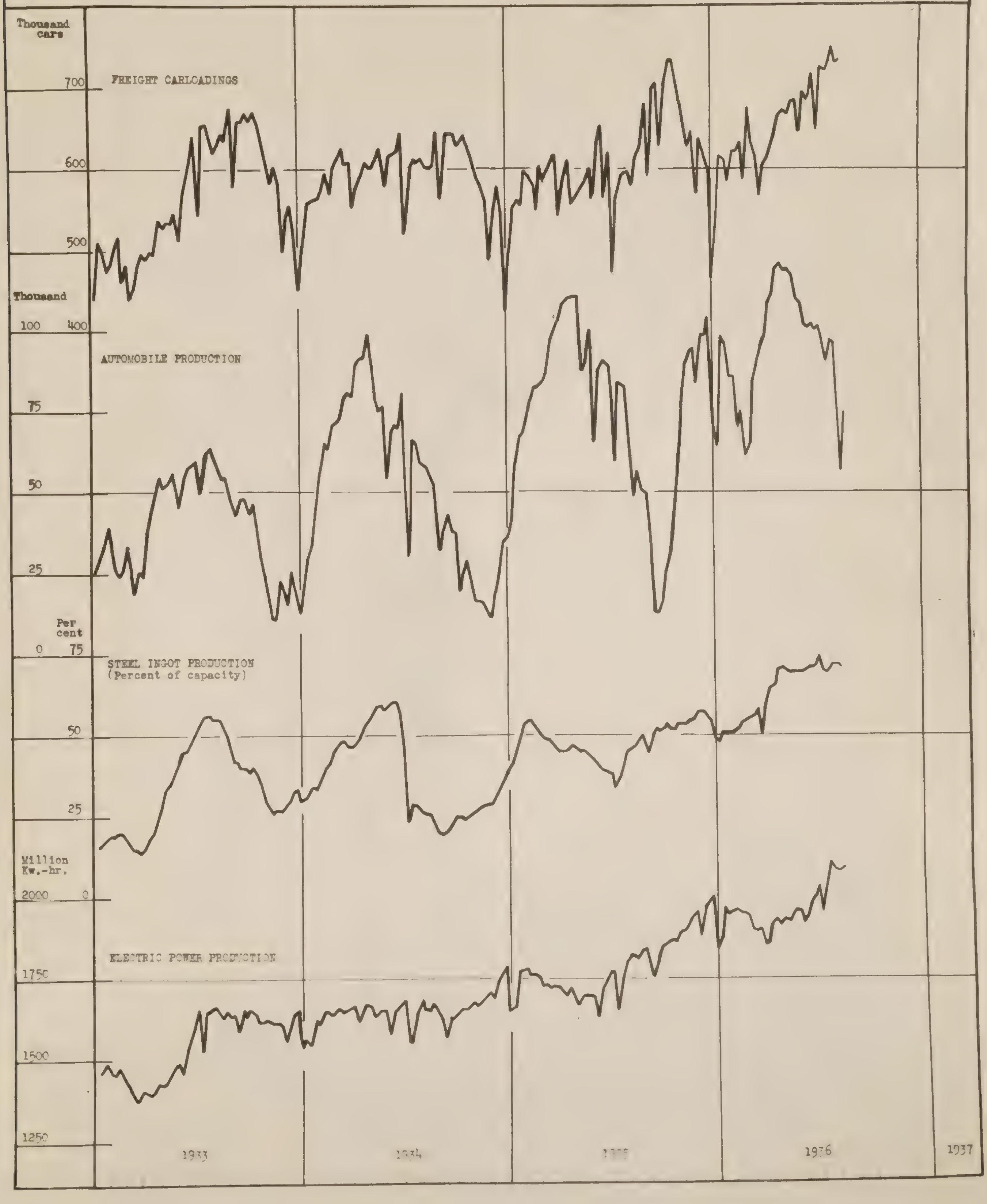
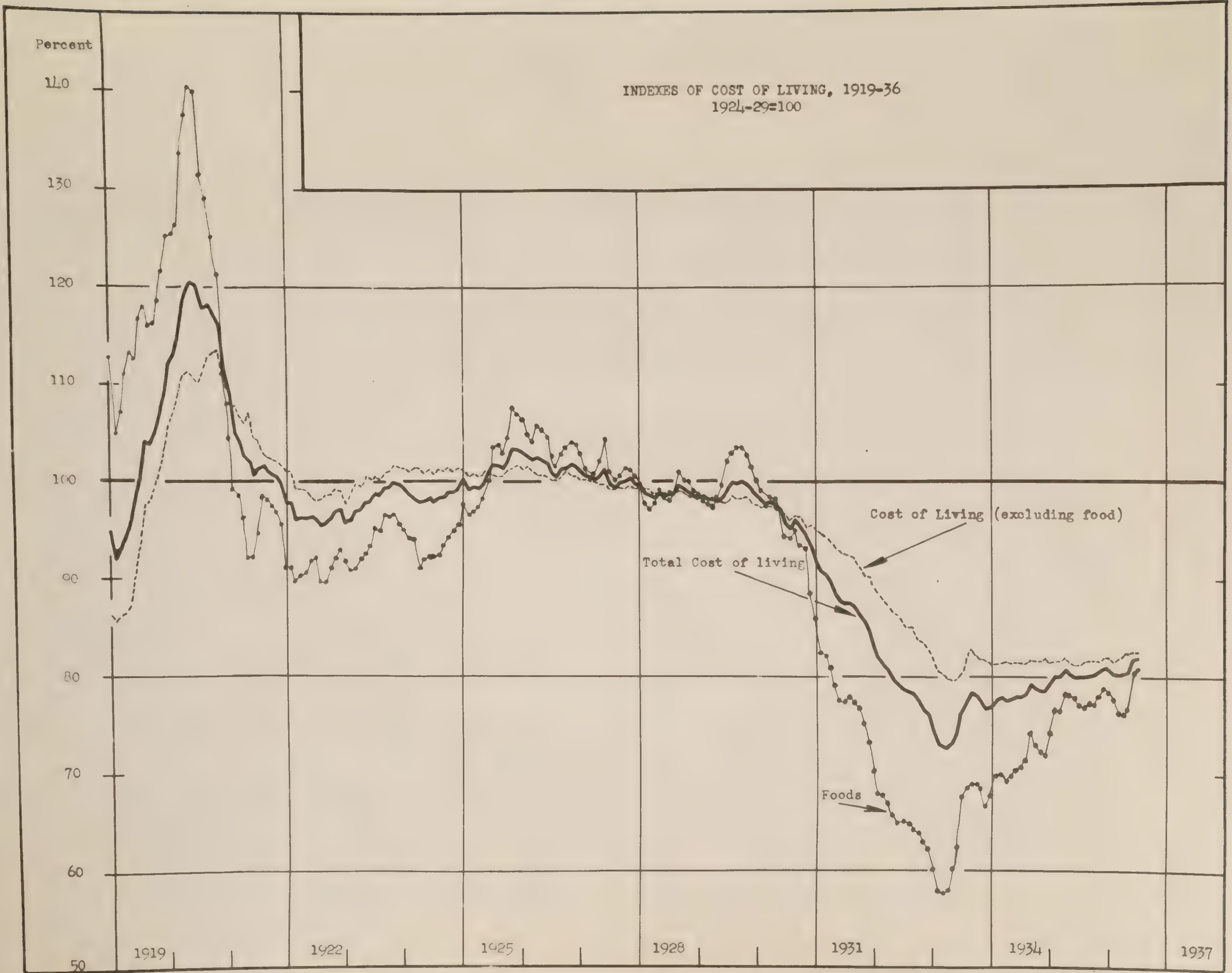

FACTORY EMPLOYMENT IN INDUSTRIES PRODUCING DURABLE AND NON-DURABLE GOODS, 1923 TO DATE
Million Employed
4.5
4.0
3.5
3.0
2.5
2.0
Non-durable
Durable
Per cent
50
45
40
35
Ratio Durable Group to Total
1923
1924
1925
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936
1937

WEEKLY BUSINESS INDICATORS

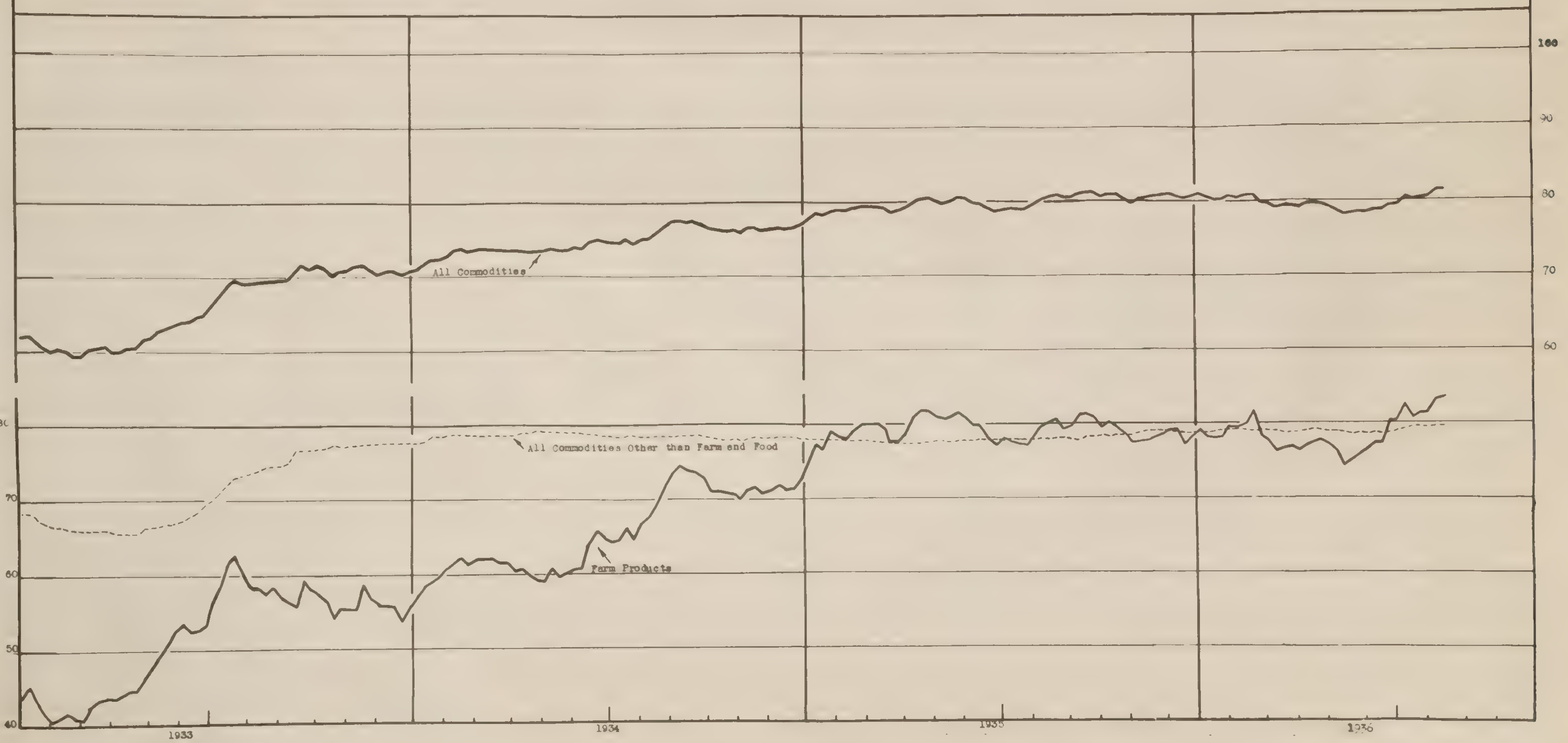


INDEXES OF COST OF LIVING, 1919-36
1924-29=100

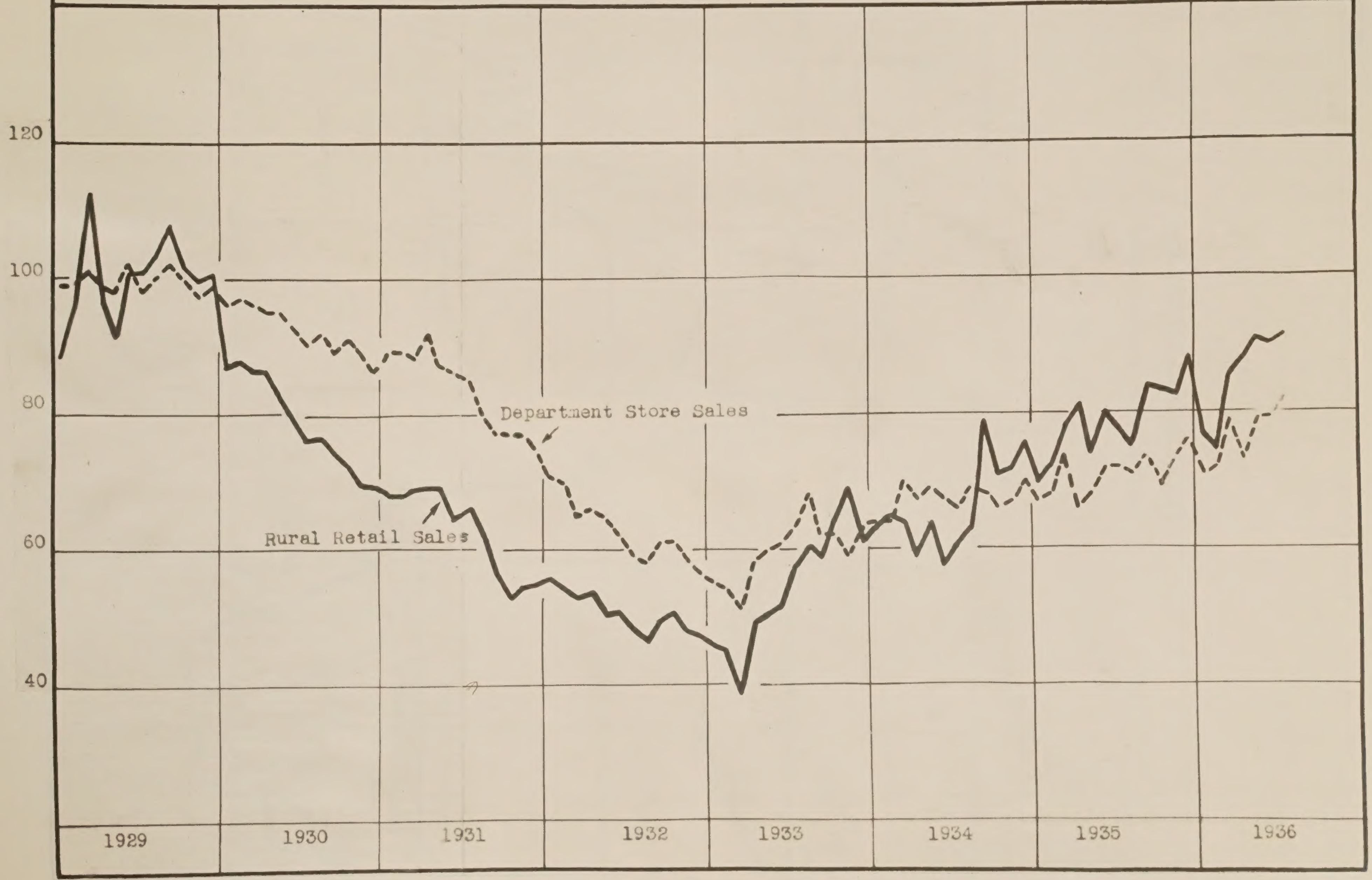


WEEKLY WHOLESALE COMMODITY PRICES

1926 = 100



INDEXES OF RETAIL SALES
Adjusted for Seasonal Variation.
1929 = 100



RESIDENTIAL BUILDING

(Indexes of Volume, Costs and Rents)

1923-5 = 100